

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2008

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of North Branch	County Lapeer
Fiscal Year End June 30, 2008	Opinion Date August 20, 2008	Date Audit Report Submitted to State August 22, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.		Telephone Number 989-894-1040	
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Zip 48707			
Authorizing CPA Signature 		Printed Name Mark J. Campbell	License Number 1101007803

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

August 20, 2008

To the Township Board  
Township of North Branch  
Lapeer County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of North Branch, Lapeer County, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of North Branch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of North Branch, Lapeer County, Michigan as of June 30, 2008, and the respective changes in financial position thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2008

The Management's Discussion and Analysis report of the Township of North Branch covers the Township's financial performance during the year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

No major purchases have been made during this fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. These include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan  
**CONDENSED FINANCIAL INFORMATION**  
For the year ended June 30, 2008

	<u>Total</u> Governmental Activities 2007	<u>Total</u> Governmental Activities 2008
Current Assets	1 253 036	1 413 641
Capital Assets	<u>1 462 369</u>	<u>1 367 795</u>
Total Assets	<u>2 715 405</u>	<u>2 781 436</u>
Current Liabilities	-	-
Non-current Liabilities	<u>473 909</u>	<u>370 297</u>
Total Liabilities	<u>473 909</u>	<u>370 297</u>
Net Assets:		
Invested in Capital Assets	1 268 460	1 207 498
Unrestricted	<u>973 036</u>	<u>1 203 641</u>
Total Net Assets	<u>2 241 496</u>	<u>2 411 139</u>

	<u>Total</u> Governmental Activities 2007	<u>Total</u> Governmental Activities 2008
Program Revenues:		
Fees and Charges for Services	82 679	76 191
General Revenues:		
Property Taxes	475 510	541 349
Penal Fines	50 981	47 777
State Revenue Sharing	186 951	183 887
Interest	11 430	22 630
Miscellaneous	<u>28 326</u>	<u>19 870</u>
Total Revenues	<u>835 877</u>	<u>891 704</u>

Program Expenses:		
Legislative	3 654	9 326
General Government	147 589	131 023
Public Safety	235 252	218 715
Public Works	65 481	134 755
Recreation and Culture	215 367	211 133
Interest on Long-Term Debt	<u>25 847</u>	<u>17 109</u>

Total Expenses	<u>693 190</u>	<u>722 061</u>
Increase in Net Assets	142 687	169 643
Net Assets, July 1	<u>2 098 809</u>	<u>2 241 496</u>
Net Assets, June 30	<u>2 241 496</u>	<u>2 411 139</u>

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended June 30, 2008

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

**Governmental Funds:** All of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. The Township's governmental funds include the General Fund, the Fire Fund, the Library Fund and the Building Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Primarily property taxes and revenue sharing are the main source of funding for the General Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund's fund balance decreased by \$16,279.88 to \$384,913.15, the Fire Fund fund balance increased by \$54,928.63 to \$264,245.55, the Library Fund fund balance increased by \$140,703.00 to \$735,400.93, and the Building Fund fund balance decreased by \$18,746.36 to \$29,081.70.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township acquired \$0 in new capital assets during the fiscal year ended June 30, 2008.

Principal payments on long-term debt were \$103,612.15.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Township revenues have plateaued. We do not expect any significant increases in taxes or revenue sharing. The Board has to be very conscientious of the decisions regarding projects.

CONTACTING THE TOWNSHIP'S MANAGEMENT

The financial reports are intended to provide an overview of the Township's finances and to show necessity for the monies received by the municipality.

Any questions about our report or need for additional information should be directed to the Supervisor of the Township.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 385 733 33
Petty cash	150 00
Due from State	<u>27 758 00</u>
Total Current Assets	<u>1 413 641 33</u>
NON-CURRENT ASSETS:	
Capital Assets	2 297 770 36
Less: Accumulated Depreciation	<u>(929 975 86)</u>
Total Non-current Assets	<u>1 367 794 50</u>
TOTAL ASSETS	<u><u>2 781 435 83</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES:	
Contracts payable – equipment	160 296 72
Contracts payable – roads	<u>210 000 00</u>
Total Non-current Liabilities	<u>370 296 72</u>
Total Liabilities	<u>370 296 72</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	1 207 497 78
Unrestricted	<u>1 203 641 33</u>
Total Net Assets	<u>2 411 139 11</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 781 435 83</u></u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	9 326 08	-	(9 326 08)
General government	131 023 22	33 212 01	(97 811 21)
Public safety	218 715 23	42 978 48	(175 736 75)
Public works	134 754 25	-	(134 754 25)
Culture and recreation	211 132 71	-	(211 132 71)
Interest on long-term debt	<u>17 108 70</u>	<u>-</u>	<u>(17 108 70)</u>
Total Governmental Activities	<u>722 060 19</u>	<u>76 190 49</u>	<u>(645 869 70)</u>
General Revenues:			
Property taxes			541 349 39
Penal fines			47 776 72
State revenue sharing			183 887 43
Interest			22 629 54
Miscellaneous			<u>19 870 03</u>
Total General Revenues			<u>815 513 11</u>
Change in net assets			169 643 41
Net assets, beginning of year			<u>2 241 495 70</u>
Net Assets, End of Year			<u>2 411 139 11</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
June 30, 2008

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds (Building)</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	354 597 50	264 245 55	735 300 93	29 031 70	1 383 175 68
Petty cash	-	-	100 00	50 00	150 00
Due from State	27 758 00	-	-	-	27 758 00
Due from other funds	<u>2 557 65</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 257 65</u>
Total Assets	<u>384 913 15</u>	<u>264 245 55</u>	<u>735 400 93</u>	<u>29 081 70</u>	<u>1 413 641 33</u>
<u>Liabilities and Fund Equity</u>					
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	<u>384 913 15</u>	<u>264 245 55</u>	<u>735 400 93</u>	<u>29 081 70</u>	<u>1 413 641 33</u>
Total fund equity	<u>384 913 15</u>	<u>264 245 55</u>	<u>735 400 93</u>	<u>29 081 70</u>	<u>1 413 641 33</u>
Total Liabilities and Fund Equity	<u>384 913 15</u>	<u>264 245 55</u>	<u>735 400 93</u>	<u>29 081 70</u>	<u>1 413 641 33</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2008

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 413 641 33
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	2 297 770 36
Accumulated depreciation	(929 975 86)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Contracts payable – equipment	(160 296 72)
Contracts payable – roads	<u>(210 000 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>2 411 139 11</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended June 30, 2008

	<u>General</u>	<u>Fire</u>	<u>Library</u>	<u>Other Funds (Building)</u>	<u>Total</u>
Revenues:					
Property taxes	149 064 85	140 545 68	251 738 86	-	541 349 39
Licenses and permits	1 785 00	-	-	31 568 50	33 353 50
State revenue sharing	179 320 07	-	4 567 36	-	183 887 43
Charges for services:					
Property tax administration	33 212 01	-	-	-	33 212 01
Fire	-	9 624 98	-	-	9 624 98
Penal fines	-	-	47 776 72	-	47 776 72
Interest	5 278 88	2 527 07	14 803 59	20 00	22 629 54
Miscellaneous	<u>7 529 19</u>	<u>345 98</u>	<u>11 921 18</u>	<u>74 18</u>	<u>19 870 03</u>
Total revenues	<u>376 190 00</u>	<u>153 043 21</u>	<u>330 807 71</u>	<u>31 662 68</u>	<u>891 703 60</u>
Expenditures:					
Legislative:					
Township Board	3 037 61	-	-	-	3 037 61
General government:					
Supervisor	8 924 17	-	-	-	8 924 17
Elections	4 770 06	-	-	-	4 770 06
Assessor	19 022 89	-	-	-	19 022 89
Clerk	31 493 12	-	-	-	31 493 12
Board of Review	1 384 58	-	-	-	1 384 58
Treasurer	15 684 75	-	-	-	15 684 75
Building and grounds	37 734 21	-	-	-	37 734 21
Professional services	1 935 00	-	-	-	1 935 00
Public safety:					
Fire protection	9 775 00	69 101 61	-	-	78 876 61
Building inspection	-	-	-	50 409 04	50 409 04
Planning and zoning	32 246 36	-	-	-	32 246 36
Public works:					
Highways and streets	134 729 25	-	-	-	134 729 25
Drains	25 00	-	-	-	25 00
Culture and recreation:					
Library	-	-	190 104 71	-	190 104 71
Debt service	<u>91 707 88</u>	<u>29 012 97</u>	<u>-</u>	<u>-</u>	<u>120 720 85</u>
Total expenditures	<u>392 469 88</u>	<u>98 114 58</u>	<u>190 104 71</u>	<u>50 409 04</u>	<u>731 098 21</u>
Excess (deficiency) of revenues over expenditures	(16 279 88)	54 928 63	140 703 00	(18 746 36)	160 605 39
Fund balances, July 1	<u>401 193 03</u>	<u>209 316 92</u>	<u>594 697 93</u>	<u>47 828 06</u>	<u>1 253 035 94</u>
Fund Balances, June 30	<u>384 913 15</u>	<u>264 245 55</u>	<u>735 400 93</u>	<u>29 081 70</u>	<u>1 413 641 33</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2008

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	160 605 39
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(94 574 13)
Capital Outlay	-

Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets

Principal payments on long-term debt	<u>103 612 15</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>169 643 41</u></u>
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TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of the Township of North Branch, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of North Branch. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2007 tax roll millage rate was 2.9174 mills, and the taxable value was \$97,301,410.00.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	3-23 years

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.



TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**Note 3 – Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 385 733 33</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	200 000 00
Uninsured and Uncollateralized	<u>1 265 541 87</u>
Total Deposits	<u>1 465 541 87</u>

The Township of North Branch did not have any investments as of June 30, 2008.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Township manages its exposure to interest rate risk is by participating in financial institution pooled funds and in mutual funds which hold diverse investments that are authorized by law for direct investments.

**Concentration of Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The investment policy of the Township contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**Note 3 – Deposits and Investments (continued)**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Township's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

**Note 4 – Capital Assets**

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 7/1/07	Additions	Deletions	Balance 6/30/08
Land	75 500 00	-	-	75 500 00
Buildings	1 264 652 37	-	-	1 264 652 37
Equipment	957 617 99	-	-	957 617 99
Total	2 297 770 36	-	-	2 297 770 36
Accumulated Depreciation	(835 401 73)	(94 574 13)	-	(929 975 86)
Net Capital Assets	<u>1 462 368 63</u>	<u>(94 574 13)</u>	<u>-</u>	<u>1 367 794 50</u>

**Note 5 – Pension Plan**

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended June 30, 2008, was \$12,925.69.

**Note 6 – Deferred Compensation Plan**

The Township does not have a deferred compensation plan.

**Note 7 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**Note 8 – Building Permits**

As of June 30, 2008, the Township had building permit revenues of \$31,568.50 and building permit expenses of \$50,409.04.

**Note 9 – Interfund Receivables and Payables**

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>2 557 65</u>	Current Tax Collection	<u>2 557 65</u>

**Note 10 – Changes in Long-Term Debt**

A summary of changes in long-term debt follows:

	<u>Balance 7/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/08</u>
Fire Building and Truck Contract Payable	166 875 28	-	20 306 37	146 568 91
Fire Truck Contract Payable	27 033 59	-	13 305 78	13 727 81
Road Commission Contract Payable	<u>280 000 00</u>	<u>-</u>	<u>70 000 00</u>	<u>210 000 00</u>
Total	<u>473 908 87</u>	<u>-</u>	<u>103 612 15</u>	<u>370 296 72</u>

**Note 11 – Fire Building and Truck Contract Payable**

On December 2, 1998, through an installment purchase contract with J.A. Contracting and Independent Bank East Michigan, the bank agreed to pay the contractor \$300,000.00 to partially fund the construction of a new fire truck and EMS building. The contract is payable by annual installment of \$28,215.00 including interest at the rate of 4.65% per annum, beginning December 2, 1999. The principal balance as of June 30, 2008, was \$146,568.91.

**Note 12 – Fire Truck Contract Payable**

On October 27, 2003, the Township borrowed \$64,346.00 from a bank to pay the balance owed on a new fire truck. The loan is payable in five annual installments of \$14,200.10 including interest at the rate of 3.28% per annum beginning November 10, 2004. The principal balance as of June 30, 2008, was \$13,727.81.

**Note 13 – Contract Payable – Lapeer County Road Commission**

On February 7, 2001, the Township entered into a contract to pay the Lapeer County Road Commission the total amount of \$700,000.00 over a ten year period for road improvements that were made during the fiscal year ended June 30, 2002. The payments are due in semi-annual payments beginning August 1, 2001, including interest at rates from 4.9% to 5.5% per annum. As of June 30, 2008, the principal balance of the contract payable was \$210,000.00.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
8/1/08	4.90	70 000 00
8/1/09	4.95	70 000 00
8/1/10	5.00	<u>70 000 00</u>
Total		<u>\$210 000 00</u>

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
Year ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
<b>Revenues:</b>				
Property taxes	150 000 00	150 000 00	149 064 85	(935 15)
Licenses and permits	5 000 00	5 000 00	1 785 00	(3 215 00)
State revenue sharing	150 000 00	150 000 00	179 320 07	29 320 07
Charges for services:				
Property tax administration	20 000 00	20 000 00	33 212 01	13 212 01
Interest	1 500 00	1 500 00	5 278 88	3 778 88
Miscellaneous	5 700 00	5 700 00	7 529 19	1 829 19
<b>Total revenues</b>	<u>332 200 00</u>	<u>332 200 00</u>	<u>376 190 00</u>	<u>43 990 00</u>
<b>Expenditures:</b>				
Legislative:				
Township Board	4 840 00	4 840 00	3 037 61	(1 802 39)
General government:				
Supervisor	10 035 00	10 035 00	8 924 17	(1 110 83)
Elections	7 085 00	7 085 00	4 770 06	(2 314 94)
Assessor	22 880 00	22 880 00	19 022 89	(3 857 11)
Clerk	50 293 00	50 293 00	31 493 12	(18 799 88)
Board of Review	1 600 00	1 600 00	1 384 58	(215 42)
Treasurer	18 710 00	18 710 00	15 684 75	(3 025 25)
Building and grounds	117 875 00	117 875 00	37 734 21	(80 140 79)
Professional services	4 000 00	4 000 00	1 935 00	(2 065 00)
Public safety:				
Fire protection	10 000 00	10 000 00	9 775 00	(225 00)
Planning and zoning	62 435 00	62 435 00	32 246 36	(30 188 64)
Public works:				
Highways and streets	254 000 00	254 000 00	134 729 25	(119 270 75)
Drains	700 00	700 00	25 00	(675 00)
Debt service	100 000 00	100 000 00	91 707 88	(8 292 12)
<b>Total expenditures</b>	<u>664 453 00</u>	<u>664 453 00</u>	<u>392 469 88</u>	<u>(271 983 12)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(332 253 00)</u>	<u>(332 253 00)</u>	<u>(16 279 88)</u>	<u>315 973 12</u>
<b>Fund balance, July 1</b>	<u>332 253 00</u>	<u>332 253 00</u>	<u>401 193 03</u>	<u>68 940 03</u>
<b>Fund Balance, June 30</b>	<u>-</u>	<u>-</u>	<u>384 913 15</u>	<u>384 913 15</u>

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND  
Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	139 000 00	139 000 00	140 545 68	1 545 68
Charges for services	12 000 00	12 000 00	9 624 98	(2 375 02)
Interest	560 00	560 00	2 527 07	1 967 07
Miscellaneous	600 00	600 00	345 48	(254 52)
Total revenues	<u>152 160 00</u>	<u>152 160 00</u>	<u>153 043 21</u>	<u>883 21</u>
Expenditures:				
Public safety:				
Fire protection	104 375 00	104 375 00	69 101 61	(35 273 39)
Debt service	50 000 00	50 000 00	29 012 97	(20 987 03)
Total expenditures	<u>154 375 00</u>	<u>154 375 00</u>	<u>98 114 58</u>	<u>(56 260 42)</u>
Excess (deficiency) of revenues over expenditures	(2 215 00)	(2 215 00)	54 928 63	57 143 63
Fund balance, July 1	<u>154 375 00</u>	<u>154 375 00</u>	<u>209 316 92</u>	<u>54 941 92</u>
Fund Balance, June 30	<u>152 160 00</u>	<u>152 160 00</u>	<u>264 245 55</u>	<u>112 085 55</u>

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND  
Year ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	80 000 00	252 000 00	251 738 86	(261 14)
State revenue sharing	5 000 00	5 000 00	4 567 36	(432 64)
Penal fines	65 000 00	52 000 00	47 776 72	(4 223 28)
Interest	8 000 00	8 000 00	14 803 59	6 803 59
Miscellaneous	12 600 00	12 600 00	11 921 18	(678 82)
Total revenues	170 600 00	329 600 00	330 807 71	1 207 71
Expenditures:				
Culture and recreation:				
Library	305 500 00	307 500 00	190 104 71	(117 395 29)
Total expenditures	305 500 00	307 500 00	190 104 71	(117 395 29)
Excess (deficiency) of revenues over expenditures	(134 900 00)	22 100 00	140 703 00	118 603 00
Fund balance, July 1	594 698 00	594 698 00	594 697 93	(07)
Fund Balance, June 30	459 798 00	616 798 00	735 400 93	118 602 93

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT

Year ended June 30, 2008

Township Board:	
Wages	2 825 93
Social security	<u>211 68</u>
	<u>3 037 61</u>
Supervisor:	
Wages	8 015 00
Social security	<u>909 17</u>
	<u>8 924 17</u>
Elections:	
Wages	3 710 00
Social security	194 70
Printing	<u>865 36</u>
	<u>4 770 06</u>
Assessor:	
Wages	16 200 00
Social security	897 35
Contracted services	217 25
Office supplies	<u>1 708 29</u>
	<u>19 022 89</u>
Clerk:	
Wages	22 465 00
Social security	1 718 53
Supplies	1 445 54
Dues	1 947 97
Contracted services	1 850 08
Miscellaneous	<u>2 066 00</u>
	<u>31 493 12</u>
Board of Review	<u>1 384 58</u>
Treasurer:	
Salary	9 875 00
Social security	736 34
Supplies	4 108 79
Printing and publishing	66 75
Miscellaneous	<u>897 87</u>
	<u>15 684 75</u>
Building and grounds:	
Wages	897 75
Social security	68 68
Supplies	189 95
Telephone	3 664 85
Utilities	4 952 72
Insurance and pension	16 681 81
Contracted services	4 222 12
Repairs and maintenance	6 894 37
Miscellaneous	<u>161 96</u>
	<u>37 734 21</u>
Professional services	<u>1 935 00</u>
Fire protection:	
Miscellaneous	<u>9 775 00</u>

TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended June 30, 2008

Planning and zoning:	
Wages	2 046 00
Social security	91 05
Contracted services	24 972 50
Printing	649 31
Professional services	<u>4 487 50</u>
	<u>32 246 36</u>
 Highways and streets:	
Contracted services	<u>134 729 25</u>
 Drains	<u>25 00</u>
 Debt service	<u>91 707 88</u>
 Total Expenditures	<u><u>392 469 88</u></u>



TOWNSHIP OF NORTH BRANCH  
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended June 30, 2008

	<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/08</u>
<u>Assets</u>				
Cash in Bank	<u>39 541 26</u>	<u>2 539 914 09</u>	<u>2 576 897 70</u>	<u>2 557 65</u>
<u>Liabilities</u>				
Due to other funds	1 639 74	284 399 44	283 481 53	2 557 65
Due to others	<u>37 901 52</u>	<u>2 255 514 65</u>	<u>2 293 416 17</u>	<u>-</u>
Total Liabilities	<u>39 541 26</u>	<u>2 539 914 09</u>	<u>2 576 897 70</u>	<u>2 557 65</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

August 20, 2008

To the Township Board  
Township of North Branch  
Lapeer County, Michigan

We have audited the financial statements of the Township of North Branch for the year ended June 30, 2008. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of North Branch in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of North Branch  
Lapeer County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

The Township's system of internal control is affected by the size of staff that it can employ.

The ultimate accounting system would include enough employees to completely segregate all aspects of each transaction. Different departments or individuals would handle: transaction authorization, transaction execution, asset handling, recording of transactions, review of transactions and subsequent control of assets.

The Township cannot enact a complete segregation of all aspects of each transaction due to the nature of local units of government. The "cost to benefit" relationship also would not justify a complete segregation of all duties.

We recommend that the Township Board Members understand these circumstances when performing their oversight responsibilities.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2008.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants